



## *Motor Vehicle Sales Tax*

The sales tax on motor vehicles was enacted in Minnesota in 1960s, and ever since its inception arguments have been made that it should be treated in a manner similar to other taxes and fees paid by drivers – namely that it is a tax paid by users of the transportation system that should be dedicated to improving the transportation system. This idea was enacted into law in 1981 by the Minnesota Legislature. The law called for a phased-in transfer of the motor vehicle sales to highway and transit purposes starting in fiscal year 1984 with the transfer completed by fiscal year 1990.

Unfortunately, budget problems encountered during the recession of the 1980s led to delays and finally a repeal of the statutory dedication of MVST to transportation.

### **Dedication of Motor Vehicle Sales Tax**

<u>Fiscal Year</u>	<u>1981 Legislation</u>		<u>Actual Dedication</u>	
	<u>General Fund</u>	<u>Transportation</u>	<u>General Fund</u>	<u>Transportation</u>
1982	100%	0%	100%	0%
1983	100%	0%	100%	0%
1984	75%	25%	100%	0%
1985	75%	25%	75%	25%
1986	50%	50%	100%	0%
1987	50%	50%	100%	0%
1988	25%	75%	95%	5%
1989	25%	75%	70%	30%
1990	0%	100%	65%	35%
1991	0%	100%	100%	0%

Throughout the 1990s, various bills were introduced and passed in one body or the other to dedicate differing percentages of MVST to transportation. In 2000, the Legislature and Governor acted once again on the issue of dedicating motor vehicle sales tax revenue to transportation when Governor Ventura successfully pushed for a reduction in the motor vehicle registration tax. The hole left in the Highway Trust Fund was replaced with 32% of the revenue from the motor vehicle sales tax.

In 2001, the Legislature once again enacted legislation increasing the percentage of revenue from MVST going to transportation. Transit systems were prohibited from using property taxes for transit operations with replacement revenue from the motor vehicle sales tax starting in fiscal 2003. The percentage of MVST needed to replace property tax revenue was set at 20.5% for metropolitan area transit and 1.25% for Greater Minnesota transit. The legislation also called for an increase to the metropolitan transit fund of 2% of MVST from the general fund for transit operations in FY2004. That transfer did not happen.

In 2003, the state faced a serious general fund budget deficit. In order to mitigate proposed cuts in transit budgets, the legislature moved the MVST revenue already dedicated to transportation by shifting about 2% of the MVST revenue portion attributable to the Trunk Highway Fund to transit assistance.

The current distribution of MVST is:

	<u>FY2004-2007</u>	<u>FY2008 and beyond</u>
Highway User Tax Distribution Fund	30%	32%
County State Aid Highway Fund	0.65%	-
Municipal State Aid Highway Fund	0.17%	-
Metropolitan Area Transit Fund	21.5%	20.5%
Greater Minnesota Transit Fund	1.43%	1.25%
General Fund	46.25%	46.25%

**If we compare the amount of MVST the legislature intended to be used for highway and transit purposes with the passage of the 1981 law with the actual dollars spent on highway and transit systems since that time, there has been a diversion of over \$6 billion dollars from transportation.**

We believe that with the magnitude of the transportation problems facing the state, it is time to permanently dedicate all of the revenue from the motor vehicle sales tax to transportation once and for all. While dedicating the remaining 46.25% of MVST to transportation will not solve the transportation problem we face and other revenue sources will need to be increased, this is an important piece of the transportation revenue puzzle. Unlike the motor fuels tax and tab fees -- which are capped -- the sales tax on motor vehicles grows with the price of motor vehicles and so in a sense represents an "indexed" revenue source. In some years, revenue from the MVST has grown at a rate greater than the rate of inflation.

We will continue to advocate for increases in our current constitutionally dedicated user fees – motor fuels tax and license tab fees as well as authorization for local governments to have additional tools for raising revenue locally. At the same time, we will be working to secure passage of the constitutional amendment that will appear on the ballot in November of 2006 permanently dedicating 100% of the revenue from the motor vehicle sales tax to transportation.

The proposed constitutional amendment passed by the Legislature in 2005 calls for a 5-year phase-in of the 46% of MVST currently deposited in the general fund to highways and transit on a schedule of 10% in year 1, 10% in year 2, 10% in year 3, 10% in year 4, and 6% in year 5. The phased-in approach will mitigate the impact on the general fund. According to estimates from the Department of Finance, 30% of MVST in fiscal years 2008 and 2009 will equal \$184 million while the total general fund revenue estimate for the FY2008-09 biennium is \$32 billion. When fully phased in, the additional MVST revenue is estimated at approximately \$300 million annually.

**Since 1893**

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